

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF EXAMINATION

of

UNITED TRUST INSURANCE COMPANY
BIRMINGHAM, ALABAMA

as of

DECEMBER 31, 2002

TABLE OF CONTENTS

EXAMINER'S AFFIDAVIT	1
SCOPE OF EXAMINATION	2
ORGANIZATION AND HISTORY	2
MANAGEMENT AND CONTROL	3
STOCKHOLDER	3
BOARD OF DIRECTORS	4
EXECUTIVE COMMITTEE	4
OFFICERS	5
CONFLICT OF INTEREST	5
CORPORATE RECORDS	5
HOLDING COMPANY AND AFFILIATE MATTERS	6
HOLDING COMPANY	6
DIVIDENDS TO STOCKHOLDER	6
MANAGEMENT AND SERVICE AGREEMENTS	6
ORGANIZATIONAL CHART	6
FIDELITY BOND AND OTHER INSURANCE	8
EMPLOYEE AND AGENT WELFARE	8
SCHEDULE OF SPECIAL DEPOSITS	8
MARKET CONDUCT ACTIVITIES	8
TERRITORY AND PLAN OF OPERATION	8
ADVERTISING	9
POLICY FORMS AND UNDERWRITING	9
CLAIMS REVIEW	9
TREATMENT OF POLICYHOLDERS AND CLAIMANTS	9
COMPLIANCE WITH AGENTS' LICENSING REQUIREMENTS	10
PRIVACY STANDARDS	10
FINANCIAL CONDITION/GROWTH OF THE COMPANY	11
REINSURANCE	11
ACCOUNTS AND RECORDS	11
FINANCIAL STATEMENTS	11
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS	12
STATEMENT OF REVENUE AND EXPENSES	13
CAPITAL AND SURPLUS ACCOUNT	14
NOTES TO FINANCIAL STATEMENTS	15
CONTINGENT LIABILITIES AND PENDING LITIGATION	16
COMPLIANCE WITH PREVIOUS RECOMMENDATIONS	16
IMPORTANT POINTS, COMMENTS AND RECOMMENDATIONS	16
SUBSEQUENT EVENTS	17
CONCLUSION	18

EXAMINER'S AFFIDAVIT

STATE OF ALABAMA
COUNTY OF Jefferson

Palmer Nelson, CFE, being first duly sworn, upon his oath

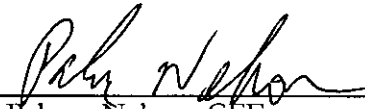
deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That an examination was made of the affairs and financial condition of United Trust Insurance Company for the period of January 1, 1999 through December 31, 2002;

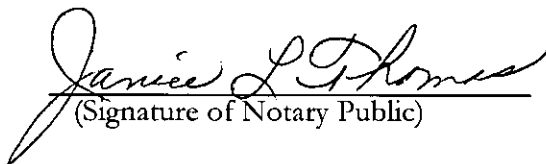
That the following 18 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama Department of Insurance;

And that the statements, exhibits and data therein contained are true and correct to the best of his knowledge and belief.



Palmer Nelson, CFE
Examiner-in-charge

Subscribed and sworn to before the undersigned authority this 28 day of JUNE, 2004.


(Signature of Notary Public)

Janice L. Thomas, Notary Public
(Print Name)

in and for the State of Alabama.

My Commission expires 9-16-04



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

WALTER A BELL
COMMISSIONER

DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
D DAVID PARSONS

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
JOHN S. ROBISON

GENERAL COUNSEL
MICHAEL A. BOWNES

RECEIVER
DENISE B. AZAR

PRODUCER LICENSING MANAGER
JIMMY W. GUNN

Birmingham, Alabama
May 28, 2004

Honorable Walter A. Bell
Commissioner of Insurance
State of Alabama
Department of Insurance
201 Monroe Street, Suite 1700
Post Office Box 303351
Montgomery, AL 36130-3351

Dear Commissioner Bell:

Pursuant to your authorization and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, an examination has been made of the affairs and financial condition of :

United Trust Insurance Company
Birmingham, Alabama

at the home office located at 450 Riverchase Parkway East, Birmingham, AL 35244, as of December 31, 2002. The report of examination is submitted herewith.

Where the description "Company" or "UTIC" appears herein, without qualification, it will be understood to indicate United Trust Insurance Company. Where the description "BCBSAL" appears herein, without qualification, it will be understood to indicate Blue Cross and Blue Shield of Alabama.

SCOPE OF EXAMINATION

The Company was last examined for the four year period ended December 31, 1998, by examiners representing the State of Alabama. The current examination covers the intervening period from the date of the last examination through December 31, 2002, and was conducted by examiners representing the State of Alabama. Where deemed appropriate, transactions, activities and similar items subsequent to 2002 were reviewed. The examination was conducted concurrently with the examination of the Company's ultimate parent, BCBSAL.

The examination was made in accordance with applicable statutory requirements of the Code of Alabama 1975, as amended, (which includes the Alabama Insurance Code), Alabama Insurance Department Regulations, Bulletins, and Directives; procedures and guidelines promulgated by the National Association of Insurance Commissioners (NAIC), as deemed appropriate; and, in accordance with generally accepted examination standards and practices.

The examination included an inspection of corporate records, test checks of recorded income and disbursement items for selected periods, and a general review of records and files pertaining to operations, administrative practices and compliance with statutes and regulations. Assets were verified and valued and known liabilities were established or estimated as of December 31, 2002, as deemed appropriate and as reflected in the financial statements contained herein. The discussion of assets and liabilities contained in this report is confined to those items where a material change was made, which indicated violation of the applicable statutes and/or regulations, or where comments and/or recommendations were deemed appropriate.

A UTIC 2002 Annual Statement with original signatures was compared with or reconciled to general ledger account balances.

The Company is audited annually by a certified public accounting firm (CPA). The CPA's workpapers were reviewed and copies were provided on an "as requested" basis. These workpapers were used in the examination where deemed appropriate.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attests to having valid title to all assets and to the non-existence of unrecorded liabilities as of December 31, 2002, as well as, other representations as deemed appropriate.

ORGANIZATION AND HISTORY

The Company was incorporated on January 31, 1964, in Birmingham, Jefferson County, Alabama, as the Modern American Life Insurance Company, a legal reserve Life company. It commenced business with 10,000 shares of one dollar par value (\$10,000) common stock and 1,700 shares of \$55 par value preferred stock (\$93,500), amounting to \$103,500 aggregate capital.

The following summary chronologically presents various other changes affecting the Company prior to the current examination period:

1966 – Articles of incorporation were amended. The number of shares of common stock was increased and par value was increased. The preferred stock was retired and converted to common stock.

1968 – Acquired by Veterans Life Insurance Company, Atlanta, Georgia. Name was changed to Physicians and Educators Life Insurance Company.

1972 – Merged with United Trust Life Insurance Company, a subsidiary of United Financing. Name was changed to United Trust Life Insurance Company and its home office was relocated to Opp, Alabama.

1982 – Acquired by Columbia Life Insurance Company and Peoples Savings Life Insurance, each owning 50% of outstanding stock. The home office was then moved to Tuscaloosa, Alabama.

1983 – Peoples Savings assumed all Company insurance business, and Willoughby and Associates, Inc. acquired 100% of the Company's capital stock.

1984 – Acquired by Alabama Industries Financial Corporation (AIFC).

1986 – BCBSAL acquired AIFC.

1986 – An amendment to the articles of incorporation increased the authorized shares of common stock from 40,000 to 400,000 shares of \$2.50 par value, and the home office location was moved to Birmingham, Alabama.

1986 – The Company's parent, AIFC, contributed \$875,000 as additional paid-in surplus.

1988 – The Certificate of Authority was changed from Life to Disability coverage only. This change was made per an agreement with the Alabama Insurance Department, following the lawsuit filed January, 1986 by Protective Life Insurance Company, and others, in which the Circuit Court entered an order holding that BCBSAL could not own and operate a life insurance company.

1988 – The Company amended its articles of incorporation to change its name to United Trust Insurance Company.

MANAGEMENT AND CONTROL

Stockholder

The Company is a stock corporation with ultimate control vested in its stockholder. The Company's sole stockholder is Alabama Industries Financial Corporation, which is in turn a wholly-owned subsidiary of BCBSAL.

Board of Directors

The Company's Board of Directors was comprised of five members for all years under examination. The Company's Bylaws, Article II, Section 1 state that the "Board will consist of not less than seven nor more than fifteen persons, and that the number may be increased or decreased from time to time by amendment to the Bylaws." A recommendation relating to the number of Board members is located on page 16.

Members of the Board of Directors elected on May 26, 2002 by the sole stockholder and serving at December 31, 2002, were as follows:

<u>Name/Address</u>	<u>Principal Occupation</u>
Manly Eugene Moor, Jr. Birmingham, Alabama	Chairman of the Board Blue Cross and Blue Shield of Alabama
Horace Linwood Jones Birmingham, Alabama	President and Chief Executive Officer Blue Cross and Blue Shield of Alabama
Gary Phillip Pope Birmingham, Alabama	Vice President Blue Cross and Blue Shield of Alabama
Arthur Grey Till, Jr. Birmingham, Alabama	Secretary Blue Cross and Blue Shield of Alabama
Terry Dee Kellogg Birmingham, Alabama	Treasurer Blue Cross and Blue Shield of Alabama

Executive Committee

The Company established an executive committee pursuant to Section V of Article II of the Company's Bylaws during the Board of Directors meeting held in 1989. The Bylaws provided that the Board of Directors "may designate two or more directors to constitute an executive committee, which, to the extent provided in such resolution shall have and may exercise all of the authority of the Board of Directors except to approve an amendment of the certificate of incorporation or plan of merger or consolidation."

Directors serving on the executive committee as of December 31, 2002, were as follows:

Horace Linwood Jones
Gary Phillip Pope

Officers

Officers serving at December 31, 2002 and elected on May 26, 2002 by the Board of Directors were as follows:

<u>Name</u>	<u>Title</u>
Manly Eugene Moor, Jr.	Chairman of the Board
Horace Linwood Jones	Chief Executive Officer and President
Gary Phillip Pope	Vice President
Arthur Grey Till, Jr.	Secretary
Terry Dee Kellogg	Treasurer
Janet Dean McGowin	Actuary

Conflict of Interest

The examiners requested that the Company provide conflict of interest statements for its Board of Directors, officers and key employees. Conflict of interest statements for the individuals were provided as part of the BCBSAL audit. The purpose of reviewing the conflict of interest statements was to determine if United Trust Insurance Company was a named party on BCBSAL's conflict of interest statement. A review determined that United Trust Insurance Company was not a named party. Due to the fact that the Company and BCBSAL are separate business entities, the Company should establish its own conflict of interest policy and statements. Conflict of interest policies and statements are necessary internal controls in ensuring compliance with ALA. CODE § 27-27-26 (1975). A recommendation regarding the conflict of interest statements is located on page 16.

A review of the 1999, 2000, 2001 and 2002 Annual Statement General Interrogatories questions revealed that the Company answered "yes" to question number thirteen, which indicated that the Company had established a procedure for disclosure of conflicts of interest of any officers, directors, trustees, or responsible employees. A review determined that the Company has not developed its own conflict of interest statement because the Company was using the conflict of interest statements of BCBSAL. Therefore, the Company has incorrectly answered the General Interrogatories question. See the related recommendation on page 16.

CORPORATE RECORDS

The Articles of Incorporation, Bylaws and amendments thereto were reviewed and appear to provide for operation of the Company. The Articles of Incorporation and Bylaws were not amended during the current examination period.

Minutes of the corporate meetings from January 1, 1999 to April 16, 2003 were reviewed.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company

The Company, a wholly-owned subsidiary of Alabama Industries Financial Corporation (AIFC), is deemed to be subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the Company is registered with the Alabama Department of Insurance as a registrant of an Insurance Holding Company System. Appropriate filings required under the Holding Company Act were made from time to time by the Company, as registrant.

Dividends to Stockholder

The Company neither declared nor paid any dividends to its stockholder during the examination period.

Management and Service Agreements

The Company was a party to various agreements: two agreements with non-affiliated companies are discussed on page 8 under the caption "Territory and Plan of Operation." The following are excerpts from agreements with the Company's ultimate parent, BCBSAL.

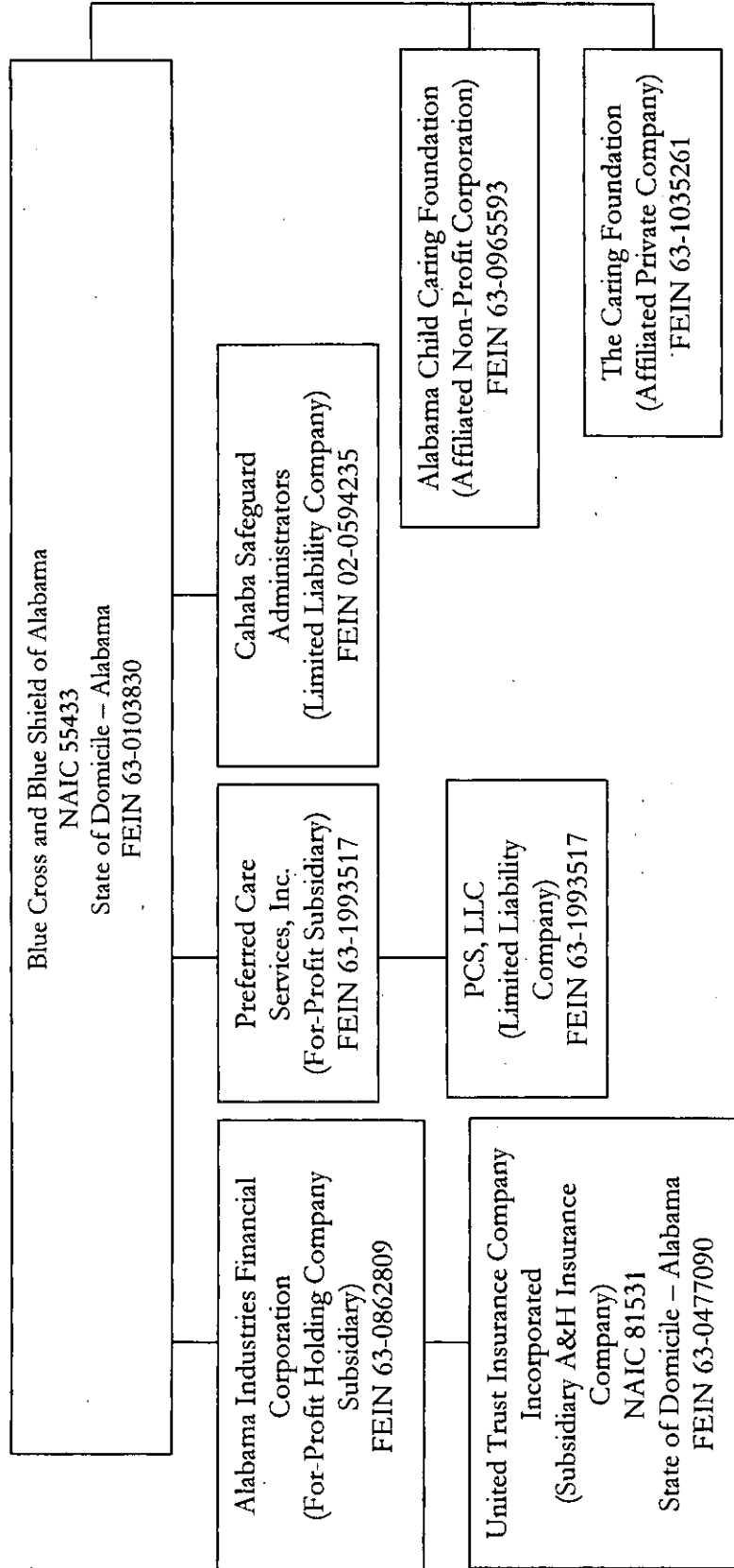
UTIC entered into an administrative services agreement with an effective date of January 1, 1990 with BCBSAL. This agreement provides that BCBSAL will furnish administrative services to UTIC including facilities, personnel, accounting, legal and auditing services. The agreement states that a set monthly fee is to be paid to BCBSAL for referenced services. The amount may be adjusted by BCBSAL by giving UTIC thirty days advance notice. The charge is based on BCBSAL's cost to provide such services on a non-profit basis. The agreement was amended December 7, 1999 with a retroactive effective date of August 1, 1992 to document the increase in the monthly administrative fee that had been in place since that time.

An administrative services agreement was entered into as of December 31, 1994, signed December 30, 1994, with a retroactive effective date of December 31, 1987, to document an agreement regarding the filing of the consolidated Federal income tax return with BCBSAL. Additionally, the BCBSAL consolidated tax filing includes Alabama Industries Financial Corporation and Preferred Care Services, Inc. The agreement provides that, in the event that there is a net operating gain for any calendar year, the affiliates agree to pay BCBSAL an amount equal to twenty percent of the net operating gain. In the event that there is a net operating loss for any calendar year, BCBSAL agrees to pay the affiliates an amount equal to twenty percent of the net operating loss. The agreement renews automatically for successive like terms of one year unless written notice to the contrary is given by either party to the other not less than 180 days before the end of any one-year term.

Organizational Chart

See the Organizational Chart on the following page.

Organizational Chart



FIDELITY BOND AND OTHER INSURANCE

The Company was a named insured on the Directors and Officers Liability Insurance Policy of their ultimate parent, BCBSAL. The Company pays an administrative fee to BCBSAL each month and part of the payment is associated with insurance. The Company was not named as a participant insured on the other policies of BCBSAL as of December 31, 2002. The Company did not own assets such as a building and thus was not included on the parent company policies.

EMPLOYEE AND AGENT WELFARE

The Company had no employees, provided no direct benefits other than payment of commissions and had no employee benefit plans in effect during the examination period. All administrative and employee services were provided under administrative service contracts discussed on page 6 under the heading "Management and Service Agreements."

SCHEDULE OF SPECIAL DEPOSITS

In order to comply with the statutory requirements of the State of Alabama, the Company had a \$100,000 Certificate of Deposit, issued by Regions Bank, Birmingham, Alabama, at a rate of 1.64% with a maturity date of October 10, 2003 on deposit with the State Treasurer of Alabama at December 31, 2002.

MARKET CONDUCT ACTIVITIES

Territory and Plan of Operation

The Company held a certificate of authority to write disability insurance in the State of Alabama. The Company was not licensed to conduct business in any other state.

The Company's products were marketed, in conjunction with products of BCBSAL, to employer groups by agents that were salaried employees of BCBSAL. The Company was a party to various agreements, some of which are discussed below and two agreements with BCBSAL beginning on page 6 under the caption "Management and Service Agreements."

Service Agreement with American Pioneer Life Insurance Company (APLIC)

The Company entered into an agreement with APLIC on May 1, 1991. In the agreement, APLIC agreed to perform the following functions for all groups insured by the Company:

- Issue master policy to all insured groups;
- Issue employee certificates to all insured employees;
- Provide all accounting services for collection of premiums and payment of claims; and
- Provide claims underwriting services.

Service Agreement with GALA, Inc. (doing business as Greater Alabama Life Agency)

The Company has an agreement with GALA effective January 1, 1993. GALA agreed to perform the following services for the Company:

- Obtain and monitor the individual agent license and licensing status of all marketing representatives;
- Coordinate all proposals and requests for rates, training, preparation and distribution of marketing literature; and
- Coordinate all underwriting, claims administration and other administrative requirements.

The Company shall reimburse GALA for the services provided. Also, the Company shall pay a fixed amount for each insured employee contract to GALA on a monthly basis.

Advertising

The Company had no media advertising programs.

Policy Forms and Underwriting

The Company currently has one short-term group disability policy approved by the Alabama Department of Insurance. The policy has variable elimination periods and flexible number of weekly benefits. Premium rates are determined initially when underwriting risk is determined. After the first policy year, the rates may change on any premium due date or any policy anniversary by giving the employer at least 31 days notice of such change. A certificate of insurance is sent to each insured employee via their employer.

The Company had not filed any disability rates with the Alabama Department of Insurance. The filing of rates and rate changes for disability insurance is not required but is requested. This is pursuant to ALA. ADMIN. CODE 482-1-024-.03 (2003) which states: "Notices of rate increases and rate filings in general for accident and health policies, riders and endorsements are hereby requested to be filed with the Department on an informational basis only."

Claims Review

The Company's claims were processed by a third party administrator, American Pioneer Life Insurance Company. Claims that were processed during the examination period were reviewed to determine whether the claims were accurately and timely processed and paid. No problems were detected from the claims review.

Treatment of Policyholders and Claimants

The Alabama Department of Insurance records reflected no complaints for the Company during the period covered by this examination. The Company also reported no complaints or inquiries during the period covered by this examination.

Compliance with Agents' Licensing Requirements

A review was made to determine whether the producers who sold the Company's policies were properly licensed by the Alabama Department of Insurance. The Company used captive agents of BCBSAL to sell its products. All of the Company's agents were found to hold a valid Insurance License in the State of Alabama.

The Company had an agreement with Greater Alabama Life Agency (GALA) to market competitive programs of group life, accidental death and dismemberment, disability, and other related employee group benefit programs in conjunction with disability programs offered by the Company. The Company's producers were licensed and appointed through BCBSAL, GALA and other unaffiliated companies. The agreement with GALA is discussed on page 9 under the heading "Service Agreement with GALA, Inc. (doing business as Greater Alabama Life Agency)."

Privacy Standards

The Company complied with the NAIC Privacy Model Regulation, ALA. ADMIN. CODE 482-1-122, along with the Health Insurance Portability and Accountability Act privacy provisions starting April 14, 2003. The Company did not share customers' personal information with any nonaffiliated third parties. Moreover, any information the Company disclosed to any other third parties was for the purpose of conducting day to day business functions.

Instructions were in place for employees to provide guidelines for the handling of personal information the Company employees or affiliated parties might have had access to.

The Company provided notices to its customers that indicated the types of information it collected, the way it is used and the manner of collection. The notices also informed the customers that the Company did not disclose any information to any nonaffiliated third parties unless permitted to do so by law.

The Company's disclosure of any health information was made only after authorization from its customers unless the disclosures were made under section 17B of the NAIC model regulation.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review.

	1998*	1999	2000	2001	2002*
Admitted Assets	\$ 3,532,019	\$ 3,645,440	\$ 3,725,969	\$ 3,856,682	\$ 3,907,823
Liabilities	97,970	84,913	85,478	109,477	70,123
Common capital stock	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Gross paid in and contributed surplus	986,029	986,029	986,029	986,029	986,029
Unassigned funds (surplus)	1,448,020	1,574,498	1,654,463	1,761,176	1,851,671

*Per examination.

REINSURANCE

The Company did not assume or cede any reinsurance during the examination period.

ACCOUNTS AND RECORDS

The Company's accounting records for the period under review were maintained in conjunction with the accounting records of BCBSAL. Separate accounting records included: bank records, tax records, cash receipts and disbursements records, general ledger worksheet, and trial balance.

FINANCIAL STATEMENTS

The Financial Statements included in this report were prepared on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2002. Amounts shown in the comparative statements for the years 1999, 2000 and 2001 were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

Statement of Assets, Liabilities, Surplus and Other Funds	12
Statement of Revenue and Expenses.....	13
Capital and Surplus Account.....	14

* The discussions in the forepart of this report, as well as, notes and discussions following the financial statements are an integral part thereof.

UNITED TRUST INSURANCE COMPANY
Statement of Assets, Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2002

<u>ASSETS</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds (Note 1)	\$ 2,635,699	\$ -	\$ 2,635,699
Cash and short-term investments (Note 2)	1,237,561	-	1,237,561
Accident and health premiums due and unpaid	373	-	373
Investment income due and accrued	34,190	-	34,190
TOTAL ASSETS	\$ 3,907,823	\$ -	\$ 3,907,823

<u>LIABILITIES</u>	<u>2002</u>
Aggregate reserve for accident and health contracts	\$ 7,673
Contract claims: Accident and health (Note 3)	32,433
Interest maintenance reserve	1,803
Taxes, licenses and fees due or accrued, excluding federal income taxes	4,613
Federal and foreign income taxes	17,598
Amounts withheld or retained by company as agent or trustee	818
Asset valuation reserve	5,185
TOTAL LIABILITIES	\$ 70,123

<u>SURPLUS</u>	
Common capital stock	\$ 1,000,000
Gross paid in and contributed surplus	986,029
Unassigned funds (surplus) (Note 4)	1,851,671
TOTAL CAPITAL AND SURPLUS	\$ 3,837,700
TOTAL LIABILITIES, SURPLUS AND OTHER FUNDS	\$ 3,907,823

* The discussions in the forepart of this report, as well as, notes and discussions following the financial statements are an integral part thereof.

UNITED TRUST INSURANCE COMPANY
Statement of Revenue and Expenses
For the Years ended December 31, 1999, 2000, 2001 and 2002

	1999	2000	2001	2002
Premiums and annuity considerations for life and accident and health contracts	\$ 261,250	\$ 260,294	\$ 256,783	\$ 250,021
Net investment income	174,611	179,693	152,974	139,578
Amortization of interest maintenance reserve (IMR)	4,326	4,326	4,326	4,326
Aggregate write-ins for miscellaneous income	-	(1)	2	(2)
<u>Total Income</u>	\$ 440,187	\$ 444,312	\$ 414,085	\$ 393,923
Disability benefits and benefits under accident and health contracts	\$ 165,653	\$ 237,267	\$ 172,759	\$ 197,017
Increase in aggregate reserves for life and accident and health contracts	(3,217)	3,984	543	(4,553)
<u>Total Underwriting Deductions</u>	\$ 162,436	\$ 241,251	\$ 173,302	\$ 192,464
Commissions on premiums, annuity considerations, and deposit type contract funds	\$ 11,522	\$ 10,847	\$ 10,410	\$ 10,663
General insurance expenses	93,837	89,269	87,781	69,689
Insurance taxes, licenses and fees, excluding federal income taxes	17,259	7,710	9,772	10,256
<u>Total Administrative Deductions</u>	\$ 285,054	\$ 349,077	\$ 281,265	\$ 283,072
Net gain from operations before dividends to policyholders and before federal income taxes	\$ 155,133	\$ 95,235	\$ 132,820	\$ 110,851
Federal and foreign income taxes incurred	30,226	16,958	25,592	18,856
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	\$ 124,907	\$ 78,277	\$ 107,228	\$ 91,995
<u>Net Income</u>	\$ 124,907	\$ 78,277	\$ 107,228	\$ 91,995

* The discussions in the forepart of this report, as well as, notes and discussions following the financial statements are an integral part thereof.

UNITED TRUST INSURANCE COMPANY
Capital and Surplus Account
For the Years ended December 31, 1999, 2000, 2001 and 2002

	1999	2000	2001	2002
Capital and surplus, December 31, previous year	\$ 3,434,049	\$ 3,560,527	\$ 3,640,491	\$ 3,747,205
Net Income	124,907	78,277	107,228	91,995
Change in asset valuation reserve	1,570	1,687	514	1,500
Net change in Capital and surplus for the year	<u>\$ 126,477</u>	<u>\$ 79,964</u>	<u>\$ 107,742</u>	<u>\$ 93,495</u>
Capital and surplus, December 31, current year	<u>\$ 3,560,527</u>	<u>\$ 3,640,491</u>	<u>\$ 3,747,205</u>	<u>\$ 3,837,700</u>

* The discussions in the forepart of this report, as well as, notes and discussions following the financial statements are an integral part thereof.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Bonds

\$2,635,699

The above captioned amount is the same as reported in the 2002 Annual Statement.

The Company's securities were maintained in trust accounts with Compass Bank and Morgan Keegan & Co., Birmingham, Alabama. It was determined that the agreement between the Company and Morgan Keegan & Co. was not approved by the Alabama Department of Insurance Commissioner. The Company executed the agreement with Morgan Keegan & Co. on September 30, 2002. However, the agreement was not approved by the Alabama Department of Insurance Commissioner until February 06, 2003. This is a violation of the ALA. ADMIN. CODE 482-1-077-.05 (2003), which states that "the custody agreement is of no force and effect until the Commissioner approves, in writing, the custody agreement."

A review of the Company's Board of Directors minutes did not reflect that the Company's investments were authorized approved or ratified. It was also noted that the Company's Executive Committee did not submit regular reports to the Board of Directors. In accordance with ALA. CODE § 27-41-5 (1975), "an insurer shall not make any investment...unless the same be authorized, approved or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize. The action of the board of directors...shall be recorded and regular reports thereof shall be submitted to the board of directors." The prior examination report as of December 31, 1998 cited the Company for the same non-compliance.

The recommendations relating to Bonds are located on page 17.

Note 2 – Cash and short-term investments

\$1,237,561

The above captioned amount is the same as reported in the 2002 Annual Statement.

SSAP No. 45, paragraph 18 requires that the Company disclose its policy for requiring collateral or other security. It also requires the Company to disclose "a description of the securities underlying the agreements, including book values and fair values, maturities, and weighted average interest rates for...securities subject to repurchase agreements." It was noted that the Company did not include these disclosures in the Notes to Financial Statements of the 2002 Annual Statement as required by SSAP No. 45, paragraph 18. A recommendation relating to Cash and short-term investments can be found on page 17.

Note 3 – Contract claims: Accident and health

\$32,433

The above captioned amount is the same as reported in the 2002 Annual Statement.

The Company did not report the claim liabilities by the required components of due and unpaid, in course of settlement, incurred but not reported and present value of amounts not yet due in accordance with the NAIC Annual Statement Instructions. The Company did not include a reserve for unpaid claims adjustment expenses in accordance with statutory accounting principles and the

NAIC Annual Statement Instructions. A recommendation relating to Contract claims: Accident and health can be found on page 17.

Note 4 – Unassigned funds (surplus)

\$1,851,671

The above amount is the same amount as that reported in the 2002 Annual Statement.

There were no adjustments made to the Company's surplus.

CONTINGENT LIABILITIES AND PENDING LITIGATION

No material contingent liabilities were noted during the examination as of December 31, 2002.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the examination with regard to the Company's compliance with the recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with the prior recommendations except for the following:

It is again recommended that the Company reflect in the minutes of the Board of Directors meetings that investments were authorized, approved or ratified in accordance with ALA. CODE § 27-41-5 (1975).

It is again recommended that the Company record and submit regular reports regarding its investments to the Board of Directors in accordance with ALA. CODE § 27-41-5 (1975).

IMPORTANT POINTS, COMMENTS AND RECOMMENDATIONS

The following summary presents the important points, comments and recommendations which are made in the current report of examination.

Board of Directors – page 4

It is recommended that the Company either comply with its Bylaws and elect seven to fifteen people to the Board of Directors or amend its Bylaws to state that the Board of Directors may have five members.

Conflict of Interest – page 5

It is recommended that the Company establish a formal conflict of interest policy and statement in order to disclose to its Board of Directors any material interest or affiliation on the part of any of its officers, directors or responsible employees, which is in or likely to conflict with the official duties of such person. The conflict of interest policy and statement is required in order to be in compliance with ALA. CODE § 27-27-26 (1975).

It is recommended that the Company correctly answer the questions in the General Interrogatories in accordance with the NAIC Annual Statement Instructions.

Note 1 – Bonds – page 15

It is recommended that the Company obtain approval of all custody agreements from the Commissioner of Insurance as required by ALA. ADMIN. CODE 482-1-077.04 2(o).

Note 2 – Cash and short-term investments – page 15

It is recommended that the Company disclose its policy for requiring collateral or other security as well as description of the securities underlying the repurchase agreements, including book values and fair values, maturities, and weighted average interest rates for all securities subject to repurchase agreements as required by SSAP No. 45, paragraph 18.

Note 3 – Contract claims – Accident and health – page 15

It is recommended that the Company report the claim liabilities by the required components of due and unpaid, in course of settlement, incurred but not reported and present value of amounts not yet due in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company include in its reserve for claims unpaid a reserve for unpaid claims adjustment expenses in accordance with statutory accounting principles and the NAIC Annual Statement Instructions.

SUBSEQUENT EVENTS

No significant subsequent events were noted.

CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the officers of United Trust Insurance Company during the course of this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Mary B. Packard, CPA, CFE; Douglas Brown; Douglas Moseley; Jayne Pearce, Shaun Sori and Lori Wright, examiners for the State of Alabama Department of Insurance; and Harland A. Dyer, ASA, MAAA, Consulting Actuary, participated in this examination of United Trust Insurance Company.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Palmer Nelson", is written over a horizontal line.

Palmer Nelson, CFE
Examiner-in-charge
State of Alabama
Department of Insurance